



Real Estate Professionals Guide to Rural Development Financing



<http://www.rurdev.usda.gov/mt>

Rural Development finances dreams!

**At Rural Development we don't work for the government—
we work for the people!**



We dream big and work hard!

Quick Facts

- #1 Rural Development provided \$80.5 million for Housing assistance in 2005!
- #2 Rural Development invested over \$109.5 million in Montana during 2005.
- #3 Montana assisted 500 individuals and families achieve the dream of homeownership in 2005 with guaranteed financing.
- #4 Funding for a Rural Development guaranteed loan is quick! Most loans are funded within 24-48 hours.
- #5 Any lender can participate in the Rural Development Guaranteed Rural Housing program as an approved RD lender or through an approved RD lender.
- #6 102% financing, no down payment, no PMI, higher moderate income limits, and 29/41 debt ratios makes it easier for your client to purchase a home.



What types of financing does Rural Development offer?

Rural Development offers two separate homeownership programs. This guide is designed to give you a working knowledge of those programs and make it easier for you to assist your clients.

Guaranteed Financing

- 100% financing.
- Clients work with traditional mortgage lenders of their choice.
- Normal purchase contract closing timeframe.
- No monthly mortgage insurance.
- Competitive fixed 30 yr. interest rates.
- Generous income limits.
- No maximum purchase price limit.
- NO RECAPTURE! Recapture is never a factor with guaranteed financing.
- Home will be inspected. Rural Development requirements are just as flexible as FHA/VA.
- Funding is always available.

Direct Loan Financing

- 100% financing.
- Client works with local Rural Development office.
- Maximum purchase price limits vary by county.
- Very low to low income limits.
- Competitive fixed rates—33-38 yr. loan terms.
- SOME CLIENTS MAY QUALIFY FOR SUBSIDIZED PAYMENTS. When the government is helping make their monthly housing payments, they could be subject to recapture upon selling the home.
- Home will be inspected and repairs may be necessary to place the home in a "like new" condition. Costs for repairs may be rolled into the loan.
- Funding is limited each fiscal year.

Keep reading to find out WHY the programs are structured this way so that you can help more clients buy the home they want!



Juggling the Guaranteed Loan Transaction

1. Clients meet with a participating mortgage lender of their choice to pre-qualify.
2. Clients go house shopping and enter into a purchase contract.
3. Lender orders appraisal from their appraiser familiar with HUD Handbook 4150.2. Lender notes required repairs (prior to closing OR escrowed at 150% of estimated cost to be completed AFTER closing).
4. Lender contacts the agent, seller, and client IF there are necessary repairs.
5. Lender submits the underwritten loan package to the local Rural Development office for review. Rural Development issues a conditional commitment to the lender within 24-48 hours.
6. Lender closes the loan and submits the guarantee fee to Rural Development.
7. Rural Development issues the guarantee to the lender.
8. Lender services the loan.

That's all!

Guaranteed financing is fast and flexible!
Guaranteed financing is NOT just for
first time homebuyers!

**Guaranteed Financing:
“Best for the Borrower”
100% Loan Option on the Market!**



NO MATTER HOW YOU DO IT— **SOLD** IS A FANTASTIC FEELING!

The Guaranteed Program is fast and easy. Here are a few more highlights that make it the **BEST FOR THE BORROWER** option!

#1: TRULY A 100% PRODUCT

Closing costs, major repairs, etc. may be rolled into the loan up to 102% of the appraised value.

#2: NO MONTHLY MORTGAGE INSURANCE

Monthly mortgage insurance is very costly to the client and is not tax deductible. The higher the monthly mortgage insurance premium the lower priced home your client will qualify to buy. Rural Development offers more affordable terms enabling clients to buy more home for their money!

#3: FLEXIBLE CREDIT/QUALIFYING RATIOS

No minimum credit score. Non-traditional credit histories accepted. Qualifying ratios of 29/41 with ratio waivers available when needed.
RURAL DEVELOPMENT HELPS GET DEALS DONE!

#4: FLEXIBLE INSPECTIONS

New guidance on HUD Handbook 4150.2 allows appraisers deemed qualified by the lender to complete necessary inspections. Rural Development will determine if any items require repair.

Understanding the Direct Loan Transaction

Timeframe: 4-6 weeks



1. Client meets with Rural Development to apply for financing.
2. Rural Development orders a credit report, verification of employment and a verification of rent.
3. Rural Development interviews the client and issues a Certificate of Eligibility for a specific pre-qualified amount. The certificate is valid for 45 days and may be extended up to 60 additional days upon request AND AVAILABILITY OF FUNDS.
4. Client may enter into a sales contract on a home (PLEASE ALLOW AMPLE TIME TO CLOSE—WRITE THE CONTRACT FOR 45-60 DAYS MINIMUM.) If you are concerned about availability of funds prior to signing a contract - call your local Rural Development office for fund verification.
5. Rural Development performs a walk through of the home.
6. Client chooses a Montana licensed home inspector to do the inspection. Rural Development uses the inspection to ensure the house meets structural, mechanical and thermal standards. Required repairs may be necessary.
7. Rural Development orders the appraisal.
8. Rural Development reviews title report.
9. Rural Development obligates funds.
10. Closing is held at title company of buyer's or seller's choice.

Q: Why are the guaranteed and direct loans so different?



A: The programs address the clients' specific needs.

Direct vs. Guaranteed

Because direct loan clients have lower incomes and set asset limitations, Rural Development wants the home to be free of any “surprises” that can drain a bank account quickly.

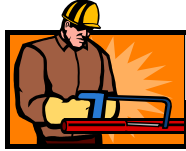
Rural Development is concerned about the condition of the homes because a major repair could be financially paralyzing to low income families.

Guaranteed clients have more moderate incomes, and there is no limit to the assets they may hold. If a major repair occurs, they are more likely to take care of the repair. Guarantee inspections are not as strict as direct loan inspections.

Direct clients may qualify to have their payments subsidized, which means the government is paying a portion of their house payment. Therefore, when they sell the home, they may pay recapture.

Guaranteed clients get their loans from participating mortgage lenders. **NO RECAPTURE IS EVER DUE!** Guaranteed clients must make full payments to the lender of their choice.

Do you have clients who can not qualify for financing with a lender? Maybe they could qualify for a direct housing loan!



What about new construction?

GUARANTEED PROGRAM: The guaranteed loan does not provide payouts and construction draws. The guarantee applies to the permanent take out financing. The lender may submit a loan file to receive a **conditional commitment** for clients who wish to build and want guaranteed financing. The builder will either carry the construction loan, or the lender will provide a construction loan. Once construction is complete and the loan is closed, the loan may be submitted to Rural Development to receive the guarantee.

What if Rural Development withdraws its conditional commitment and the lender is left high and dry?

A conditional commitment from Rural Development means that a final loan note guarantee will be issued once all the conditions have been met.

Can borrowers lose their guarantees?

Yes, under two conditions: 1) if the builder, lender or client backs out of the deal; or 2) if the client lied on the loan application.

DIRECT PROGRAM: The direct program is very different. When the client is working directly with the Rural Development office, Rural Development will oversee the construction draws. Typically a 60% payout is made on work in place, and a 40% payout is made when construction is completed and a final inspection has been received.

What documents are required for a new construction loan?

Spec Home

Rural Development plan certification OR building permit

Footing, framing and final inspections

Occupancy permit OR final inspection

1 Year Builder Warranty OR
10 Year Insured Warranty
(if builder wishes to sign
Plan Certification)

“Pre-Sold” Construction Home

Same as “spec” home PLUS:

Plot or site plan

Construction or purchase contract

AD 1048 Debarment for builder

400 Series
400-1: Equal Opportunity
400-3: Notice to Applicants
400-6: Compliance Statement
EEO posters for job site

What types of homes can I build and finance with Rural Development?

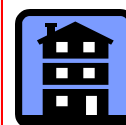


Site Built Homes

- Built from the ground up, built entirely at the home site
- Conforms to all state, local, or regional codes where the home is located
- Often called a “stick-built” home

Modular Homes

- Built in modules at a factory
- Built to conform to all state, local, or regional building codes at their destinations
- Modules are transported to the home site, then joined together by local contractors
- Modular homes are placed on a permanent foundation.
- Local building inspectors check to make sure the structure meets requirements and that finish work is done properly
- Modular homes are *sometimes* less expensive per square foot than site built homes
- A well-built modular home should have the same longevity as its site-built counterpart, increasing in value over time



Manufactured Homes

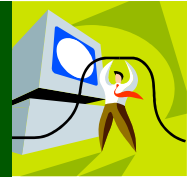
- Formerly referred to as mobile homes or trailers
- Built in a factory
- Conform to a Federal Building Code, called the HUD code, rather than to building codes at their destinations
- Homes are built on non-removable steel chassis
- Sections are transported to the home site on their own wheels
- Multi-part units are joined at their destinations
- Segments are placed on a permanent foundation.
- Building inspectors check the work done locally (electric hook-ups, etc.) but are not required to approve the structure
- Manufactured housing is generally less expensive than site built or modular homes
- Manufactured homes often decrease in value over time

Only NEW Manufactured Homes built by an Approved Dealer-Contractor qualify for Rural Development Financing. For a list of those approved dealers: Contact the Montana State Office at: (406) 585-2515



What resources are available on the web?

Web site under construction—Electronic copies are available by contacting Denise Green at denise.green@mt.usda.gov



To determine property eligibility, log onto:

<http://eligibility.sc.egov.usda.gov/eligibility/welcomeAction.do>

1. Click on "Income/Property Eligibility."
2. On the left menu, under "Property Eligibility" click on "Single Family."
3. Click "Accept" to move forward to the property site.
4. IF YOU HAVE AN ADDRESS, type in the complete address including zip code.
5. Click "Get Map." The address will be mapped to its exact location AND indicate whether or not it is in an eligible area.
6. IF YOU HAVE NO ADDRESS, click on Montana in the US Map.
7. If the "quick list" to the right does NOT list the county in which you are interested, all property in the county is eligible. If the county is listed, click on the name to see the ineligible area(s) within the county.

Montana has 56 COUNTIES

51 counties are 100% ELIGIBLE

5 COUNTIES CONTAIN INELIGIBLE AREAS (CASCADE, GALLATIN, LEWIS & CLARK, MISSOULA AND YELLOWSTONE)

To identify income limits, log onto the website:

http://www.rurdev.usda.gov/rhs/sfh/GSFH_Income_Limits/mt%20GRH.pdf

Print the income limits for future reference.

The list will show you the ADJUSTED Annual Income Limits.

For the **direct** loan program, use "**Low Income**" line.

For the **guaranteed** loan program, use "**Mod. Inc-Guar. Loan**" line.

ADJUSTED INCOME TUTORIAL:

Income adjustments can be made for dependents, child care, and disability expenses. A family of 4 in Gallatin County may have a gross annual income of \$75,000, but with deductions for 2 children, daycare, and other possible monthly expenses they could easily have an ADJUSTED income at or below the 2005 limit of \$66,700. Income limits are revised each year. Your lending partner can help accurately determine adjusted income.

**CALL YOUR LOCAL RURAL DEVELOPMENT OFFICE
FOR ASSISTANCE!
WE'RE HERE TO HELP!**

Rural Development + You = A Rewarding Partnership

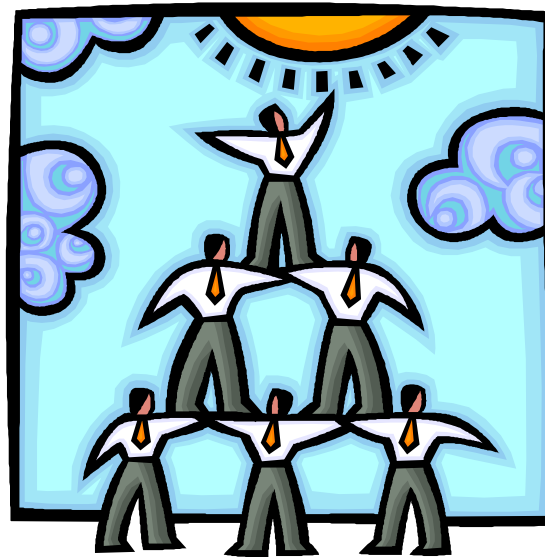
At Rural Development we invest in people, families, businesses, and communities. We are committed to assisting rural communities.



We need dedicated lenders, real estate professionals, builders, contractors, appraisers, and other professionals to help us achieve our mission.

Helping more people achieve the dream of homeownership is a worthwhile and rewarding experience. We want you to join us by offering the best financing programs to the rural citizens of Montana.

**Together we can serve more people!
Together we can make a difference!**



Equal Opportunity Lender

The U.S. Department of Agriculture (USDA) prohibits discrimination in all its programs and activities on the basis of race, color, national origin, age, disability, and where applicable, sex, marital status, familial status, parental status, religion, sexual orientation, genetic information, political beliefs, reprisal, or because all or part of an individual's income is derived from any public assistance program. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (braille, large print, audio-tape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file complaint of discrimination, write to USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W. Washington, D.C. 20250-9410, or call (800) 795-3272 (voice), or (202) 720-6382 (TDD). "USDA is an equal opportunity provider, employer, and lender."

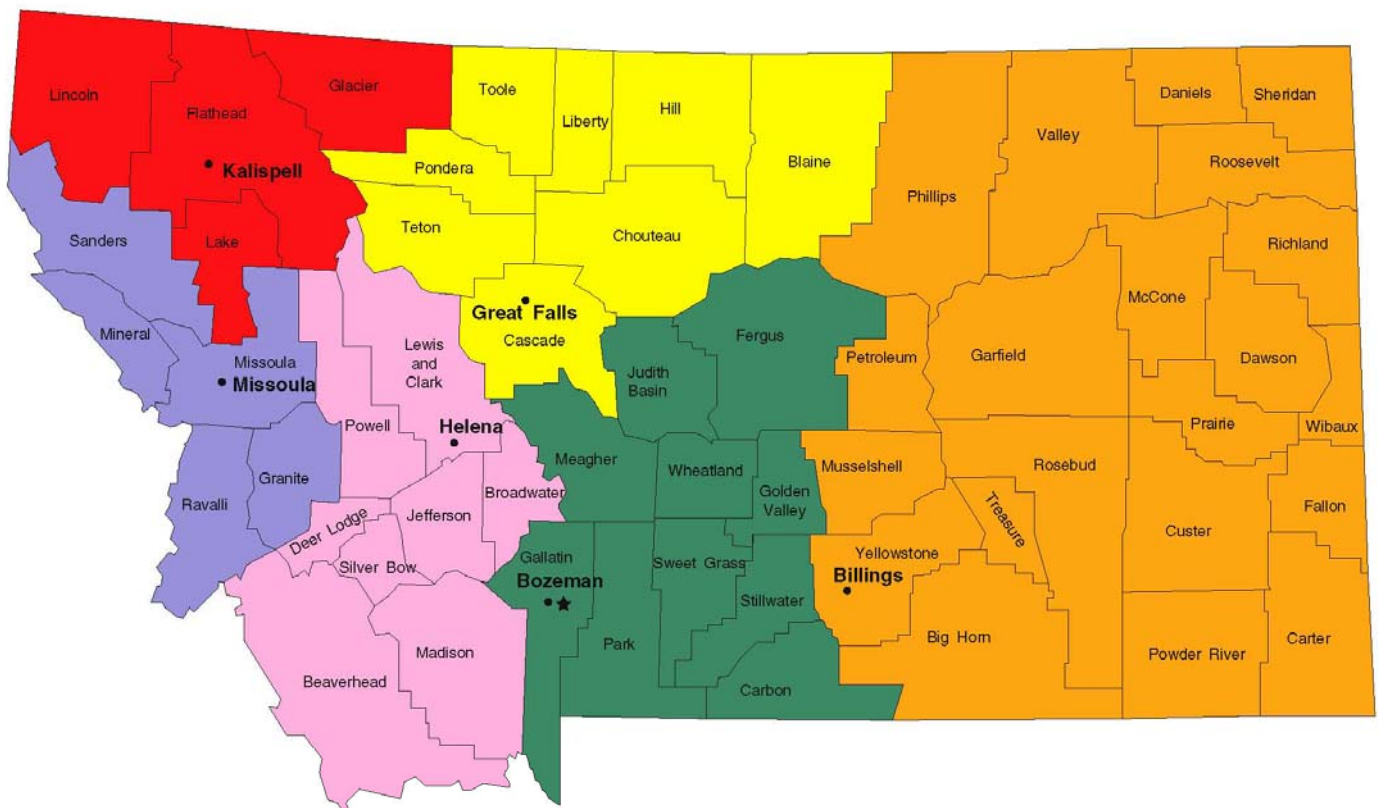
**MONTANA OFFICE
LOCATIONS**

USDA RURAL DEVELOPMENT

Deborah Chorlton, Housing Program Director
(406) 585-2515

900 Technology Blvd., Suite B
Bozeman, MT 59718

RURAL DEVELOPMENT MONTANA OFFICES



Billings Area Office
(406) 657-6297

Bozeman Area Office
(406) 585-2530

Helena Area Office
(406) 449-5000

Great Falls Area Office
(406) 727-7580

Missoula Area Office
(406) 829-3395

Kalispell Area Office
(406) 752-4242

State Office
(406) 585-2580

☆ State Office
○ Area Office